

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket No. D.T.E. 02-24/25
Record Request Response

Record Request No.: AG-RR-57

Did FG&E make an insurance claim related to the Sawyer Passway substation fire? Did FG&E obtain any proceeds and, if so, how those are reflected in the cost of service? Please indicate whether any proceeds received were based on net book, market value, or replacement value.

Response:

Tom Gatherum, the Company's loss control and claims supervisor, prepared an internal memo dated March 12, 2000, the date of the substation fire, discussing his preliminary evaluation of the viability of FG&E filing an insurance claim (Refer to Attachment AG-RR-57). A claim was subsequently filed under the All Risk Property (ARP) policy on FG&E's behalf by its insurance broker; however, the claim was denied. FG&E did not further pursue this matter with the insurance carriers.

As explained in the Gatherum memo, very little of the damage was related to the fire as a cause. Any possible proceeds would have been minimal, and would have been reduced by the costs of pursuing the claim.

Person Responsible: Mark H. Collin

DATE: March 12, 2000
SUBJECT: Fire – Sawyer Passway Switchgear – 3/12/00
Re: Property Insurance Coverage
FROM: T. Gatherum
TO: M. Dalton, R. Bisson
Cc: M. Collin

I have viewed the damaged switchgear involved and have completed a review of the insurance policies that might provide coverage to FG&E for the damages it sustained. It is my opinion that there will be no or little recovery for FG&E from its insurers for this damage.

There are two (2) policies that might provide coverage: (a) the Boiler & Machinery ["B&M"] policy issued by the Royal & Sun Alliance, and (b) the All Risk Property ["ARP"] policy issued by Starr Technical Risks Agency. All policies provide coverage to property at locations listed in the schedule of locations, unless certain properties at a location are specifically excluded, or the damage results from an excluded peril (that, which causes the damage).

The B&M policy essentially provides coverage for damages caused by perils which arise within the equipment itself. As its name implies, it is most applicable to boiler or other pressure vessels and mechanical equipment. Electrical "disturbances" are included as a peril. The B&M policy includes Sawyer Passway as a location, it specifically excludes "... the fossil fuel steam plant located at Sawyer Passway, Fitchburg, MA." and "... all substations except Flagg Pond, [and the three mobiles in the Unitil System]..." Therefore, although the peril is covered, the property is excluded from coverage. The intent was/is to insure the gas equipment at this location only. Previously, the gas turbine generator and compressor station were included, but they were removed from the schedule when FG&E gave up its interest in them.

The decision to exclude the bulk of the electrical equipment from B&M coverage has evolved over the past decade. Prior to the mid-eighties we (the Unitil System companies) did not carry B&M coverage on electrical equipment except for generation facilities. We explored the coverage in the mid-eighties when we were experiencing a rash of substation transformer failures (including a number with aluminum winding at CECO). The coverage at that time was about \$5,000 per company and deductibles were in the \$5,000 range. Replacement transformers were in the range of \$50,000 – \$75,000 and we replaced several at each company. This was a good deal but couldn't last forever, and didn't. Soon the premium skyrocketed and the carriers were placing maintenance conditions on continued coverage (such as monthly gas analysis, etc). We went through four (4) carriers in fifteen (15) years. The deciding factor on not carrying the coverage however was the Actual Cash Value endorsement added by the carriers for any equipment over 25 years of age. It provided that instead of replacement costs, the carrier would only pay "... the amount to repair or replace the property ... less allowance for physical deterioration and depreciation, including obsolescence."

The ARP policy, while providing coverage for the location, specifically excludes coverage for the peril of "electrical failure, electrical injury or disturbance to electrical appliances, [etc.] ..." It

does however provide coverage for "... ensuing fire ..." and then only for the actual loss or damage directly caused by such ensuing fire ...". My preliminary observation of the damaged equipment leads me to believe that the vast majority of the damages were electrical in nature and not "ensuing fire". This is based primarily on the fact that there appears to have been very little combustible material available to support such fire.

My plan at this time is not to notice the B&M carrier as I see no potential for recovery there and am not interested in providing this information to there underwriters shortly before renewal (5/1/00) if there will be no recovery.

I am still putting my thoughts together with respect to involving the ARP carrier. This policy also renews 5/1/00. One option I am contemplating would be to bring in a cause and origin expert (cost = \$600 - \$750) prior to noticing the carrier. I would open up one of the adjacent compartments that incurred little damage (primarily heat) and seek his opinion as to the amount and types of combustibles present and whether they would support an "ensuing fire" theory. If such a theory could be supported, it must be remembered that only that portion of damages directly attributable to "ensuing fire" could be recovered.

Please let me know your thoughts regarding the above option.